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# MEDICAL COSTS OF NO-FAULT AUTOMOBILE INSURANCE

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## MEDICAL COSTS OF NO-FAULT AUTOMOBILE INSURANCE

### Summary

Many factors contribute to health care cost growth and recent research shows that Michigan's no-fault auto insurance policy is one such statewide driver. No-fault insurance means that an injured automobile accident victim receives compensation from his or her auto insurance company rather than having to show fault of the other driver in order to recover compensation from that driver's insurance company. Enacted in 1973, Michigan's mandatory no-fault auto insurance system was envisioned to reduce the number of disputes, fraudulent claims, and litigation associated with auto accidents. No-fault auto insurance has been successful at paying claims more quickly, which may allow auto accident victims to receive more timely and appropriate care to treat their injuries.

Michigan is one of 12 states with either mandatory or optional no-fault insurance. While successful in meeting some important policy goals, no-fault insurance premiums and associated medical costs have proven to be more expensive than those in all other types of auto insurance systems. Accounting for both higher prices and higher usage, medical claims in Michigan cost auto insurers 57 percent more than claims for similar crashes in other states; consequently, automobile insurance premiums are 17 percent higher on average. Driving higher costs under no-fault insurance is the practice that auto insurers are the primary payers for auto accident related medical care, whereas health insurers tend to be the primary payers in tort insurance states. This responsibility for payment becomes expensive if and when auto insurers are paying higher prices than health insurers for the same medical services. In Michigan, all payers are charged the same rate for services, but pavers often do not pay the full amount charged. The actual amount paid by auto insurers is higher than the amount paid by most other payers.

Auto insurers pay higher rates because they have limited power to negotiate discounts on the rates they are charged. The Michigan Insurance Code states that providers "...may charge a reasonable amount

for the products, services and accommodations rendered. The charge shall not exceed the amount the person or institution customarily charges for like products, services and accommodations in cases not involving insurance." This language has been held to mean that auto insurers must pay the amount customarily charged and not the amount customarily received. This provision in the Insurance Code may explain why providers' claims for reimbursement for medical care related to auto accidents are 24 percent higher in Michigan than in other states, when holding the amount of care constant.

Not only are medical prices associated with auto accidents higher in Michigan, but medical use is as well. Michigan's unique and relatively generous medical coverage, which includes "all reasonably necessary products, services and accommodations for an injured person's care, recovery, or rehabilitation," has resulted in expansive and nearly unlimited coverage for those who need or want medical services. The result is a higher use of medical services in no-fault states compared to states with other insurance systems that rely on health insurers for auto accident related injury care. Patients may use more medical services in order to receive better, more comprehensive care, or in an attempt to gain access to the tort system. Auto insurers cannot contain use to prevent providers from ordering medical services that other insurers might have declined to cover.

Should policymakers consider changes to Michigan's no-fault auto insurance, many reform options would reduce the medical costs associated with the system, and consequently, auto insurance premium costs as well. Policymakers have available to them many reform options for Michigan's no-fault auto insurance that could reduce the associated medical costs. Several of these reforms may maintain the quality and comprehensiveness of current benefits, while others would alter the benefits of the current system to varying degrees, but may introduce ancillary impacts to accident victims or payers in other markets. For example, capping medical benefits for

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those injured in automobile accidents may lead to reductions in health care spending and reductions in automobile insurance premiums, but caps may also negatively impact the comprehensiveness of care received by those catastrophically injured in automobile accidents. Fee schedules for auto insurers will reduce medical prices associated with auto accidents but may cause providers to shift costs to other payers to recoup lost revenue, and may cause other distortions in the healthcare market.

Policy options for consideration by state policymakers to address no-fault medical costs include:

- Introduce fee schedules for auto insurers, similar to that required for workers' compensation;
- Designate the health insurer as primary payer for auto accident related medical expenses and the auto insurer as the secondary payer;
- Allow auto insurers to pay the amount customarily received or allow auto insurers to pay the same prices as health insurers;
- Reform auto insurance to be a tort-system with added mandatory or optional no-fault;
- Allow customers to choose between a less expensive no-fault and a more expensive tort auto insurance;
- Allow customers to choose between several personal injury protection coverage amounts rather than require all customers to have unlimited coverage;

- Change the tort threshold from verbal to dollar, where verbal thresholds allow access to the tort system if injuries meet certain criteria and dollar thresholds allow access after a specified amount of economic damages has occurred;
- Allow auto insurers to implement cost containment measures similar to those allowed for health insurers;
- Cap medical benefits;
- Designate health insurers as payers for all auto accident related medical expenses;
- Repeal no-fault and revert back to a tort based system.

Michigan's no-fault insurance system provides Michigan drivers with a robust medical safety net. Michigan drivers may take comfort in knowing they have comprehensive medical coverage in the event they are injured in an auto accident. This coverage is likely more expansive than the coverage they would receive through private health insurance if they were injured in some other way. However, the trade-off for this more generous medical coverage is higher auto insurance premiums for Michigan drivers. Reducing the medical costs associated with no-fault auto insurance may reduce overall medical spending in the state while also reducing the cost of auto insurance premiums. However, Michigan drivers would have a less generous safety net, and some medical costs may be shifted to other payers such as private insurers.